

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 COME-00 XMB-02 OPIC-03 AID-05 EB-07

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FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 797

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

USCINCSO

C O N F I D E N T I A L MONTEVIDEO 0823

E.O. 11652: GDS

TAGS: ENRG, BEXP, BENC, PFOR, UY, BR

SUBJ: BRAZIL TO BUILD PALMAR DAM IN URUGUAY

REF: (A) 75 MONTEVIDEO A-159 (NOTAL), (B) 75 MONTEVIDEO A-62

PASS COMMERCE/MEPD, EXIMBANK. USCINCSO FOR POLAD

BEGIN UNCLASSIFIED

1. URUGUAYAN AND BRAZILIAN CENTRAL BANK PRESIDENTS SIGNED AGREEMENT ON FEB 26 BY WHICH BRAZIL WILL PROVIDE UP TO \$131 MILLION OF ESTIMATED \$200 MILLION FOR CONSTRUCTION OF 300 MVA HYDROELECTRIC DAM AT PASO PALMAR ON URUGUAY'S RIO ENGRO. REMAINDER WILL BE PROVIDED BY URUGUAY FOR LOCAL COSTS.

2. AS DESCRIBED IN REF A (NOT SENT TO BUENOS AIRES) LOAN IS TIED TO ACQUISITION OF SUPPLIES AND EQUIPMENT IN BRAZIL AS WELL AS CONSTRUCTION BY BRAZILIAN COMPANY. ACCORDING TO PRESS, TERMS ARE FIFTEEN YEARS AT EIGHT PERCENT WITH FIVE YEAR GRACE PERIOD.

3. WITH EXCEPTION OF SALTO GRANDE, THIS LOAN IS THE LARGEST
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SINGLE FOREIGN CREDIT URUGUAY HAS RECEIVED. REPORTEDLY, IT

MAY ALSO BE THE LARGEST CREDIT FOR A SINGLE PROJECT THAT BRAZIL HAS GRANTED THAT WILL NOT PROVIDE DIRECT BENEFITS, (E.G. ITAIPU AND ELECTRICITY, TO BRAZIL.

4. PALMAR WILL FORM PART OF A CIRCUIT WHICH, WITH SALTO GRANDE (A 1,600 MVA JOINT PROJECT WITH ARGENTINA ON RIO URUGUAY), WILL BY 1980 BEING TO PROVIDE URUGUAY WITH A SURPLUS OF ELECTRIC POWER. PALMAR PLANS HAVE BEEN OFF AN ON FOR 10 YEARS. PETROLEUM PRICE INCREASES, AND AN UPDATED STUDY, CONFIRMED FEASIBILITY OF CONSTRUCTION NOW. PALMAR WILL NOT PROVIDE ELECTRICITY TO BRAZIL. WHILE A BRAZILIAN INTER-CONNECTION (SUCH AS IS BEING IMPLEMENTED WITH ARGENTINA) HAS OCCASIONALLY BEEN MENTIONED, THERE ARE NO PLANS NOW UNDER STUDY FOR SUCH AN EVENTUALITY.

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5. COMMENT: THE PUBLICITY SURROUNDING THE AGREEMENT HAS, IN KEEPING WITH BRAZIL'S "LOW PROFILE" HERE, (REF B) BEEN FACTUAL AND LOW KEY. NEVERTHELESS, BRAZILIAN FINANCING AND THE RESULTANT SIGNIFICANT INCREASE IN IMPORTS FROM THAT COUNTRY WILL BE SEEN LOCALLY AS REINFORCING BRAZILIAN INTEREST IN URUGUAY.

6. ANOTHER ASPECT TO NOTE IS THAT PALMAR IS CONSIDERED TO BE A PET PROJECT OF THE URUGUAYAN MILITARY WHO ARE ATTRACTED ON SECURITY GROUNDS AS IT IS WHOLLY WITHIN URUGUAY. THERE IS ALSO SOME INDICATION THAT IT IS VIEWED AS A "PRESTIGE" PROJECT, I.E., AN ENDURING MONUMENT TO MILITARY PARTICIPATION IN THE GOVERNMENT, AS A SMALLER DAM BUILT IN THE 1930'S IS ALSO CONSIDERED. THE GENERAL PUBLIC IS AWARE OF THIS AND WILL PROBABLY INTERPRET THIS LOAN AS BRAZILIAN SUPPORT FOR THE PRESENT MILITARY INFLUENCED GOVERNMENT, WHICH IN OUR VIEW IT UNDOUBTEDLY IS.

7. WHILE THE LOAN, OUTWARDLY AT LEAST, HAS THE APPEARANCE OF A "BALANCING ACT" TO OFFSET ARGENTINE INFLUENCE IN URUGUAY,

THE AGREEMENT FITS NEATLY INTO THE GOU'S OFSTATED POLICY
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OF DEVELOPING A NETWORK OF POLITICAL, ECONOMIC, AND SOCIAL TIES WITH ITS CLOSE NEIGHBORS. THE GOU HAS NEGOTIATED A SERIES OF BILATERAL AGREEMENTS, AND IT INSISTS THAT THE ULTIMATE AIM OF THE ACCORDS IS REGIONAL ECONOMIC DEVELOPMENT AND COOPERATION. IF THE PROJECT GOES FORWARD, AS APPEARS LIKELY, IT WILL BE ONE OF THE KEY ACCORDS URUGUAY HAS SIGNED TO FURTHER THIS POLICY.
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